



Trends in Trending

Department of Local Government Finance

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Why are assessments adjusted through trending?

- Indiana Constitution requires fair and equitable property tax assessments.
- 2002 Indiana Supreme Court ruled that current method was unconstitutional and ordered different standard be used.
- General Assembly ordered property be assessed using Market Value-In-Use



What is reassessment?

Reassessment (IC 6-1.1-4-4(b))

- Assessors physically inspect each property to ensure that records are correct
- Inspection accomplishes the gathering of data appropriate to value the property
 - Does this property still have a free-standing garage and an in-ground pool?
 - Is the building on this property still 1,200 square feet or has it increased/decreased in size?
- Next statewide general reassessment scheduled to begin July 1, 2009 for 2011 pay 2012 tax bills



What is trending?

Trending (*i.e. annual adjustment*)

- Property values are adjusted (the adjustment can be positive or negative) on an annual basis to bring them closer to market value-in-use. The assessing official uses sales of properties in a neighborhood, area, or class of property from the previous two (2) years to determine the adjustment factor.
- In the past, assessed values were adjusted only after a reassessment, which came as far apart as 10 years. Trending now occurs every year.



Reassessment vs. Trending

- Trending was implemented to supplement, not replace, the reassessments, which current law calls for every 5 years.
- Without trending, reassessments resulted in dramatic shifts in assessed values because the values of properties were typically only adjusted during a reassessment year.
- Trending requires the assessor to annually adjust the value of the property based on market value-in-use, which is primarily determined from sales.



How does trending work?

History of Property Valuation Changes

Tax Year	Property Sales														
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
2009 Pay 2010 (4)													2009 Pay 2010		
2008 Pay 2009												2008 Pay 2009			
2007 Pay 2008											2007 Pay 2008				
2006 Pay 2007 (3)										2006 Pay 2007 (3)					
2005 Pay 2006						No Sales from these years used; No change to 2001 Pay 2002 Values									
2004 Pay 2005															
2003 Pay 2004															
2002 Pay 2003 (2)				2002 Pay 2003 (2)											
2001 Pay 2002		Market Value did not apply; no change in values until 2002													
2000 Pay 2001															
1999 Pay 2000															
1998 Pay 1999															
1997 Pay 1998															
1996 Pay 1997															
1995 Pay 1996 (1)	1995 Pay 1996 (1)														

NOTES:

(1) Reassessment

(2) First use of Market Value

(3) First Annual Trending

(4) DLGF to allow the use of one year of sales only



How does trending work?

- Each year, the assessed value is multiplied by a neighborhood factor.
- Values can go up. . .

2008 assessed value:	\$100,000
Neighborhood factor:	<u>x 1.1</u>
2009 assessed value:	\$110,000



How does trending work?

- Each year, the assessed value is multiplied by a neighborhood factor.
- Values can go up. . .
...or down.

2008 assessed value:	\$100,000
Neighborhood factor:	<u>x 0.9</u>
2009 assessed value:	\$90,000



How does trending work?

- Whether values go up or down depends on recent sales prices:

Prices rise



Factor rises



Prices fall



Factor falls





What is a Ratio Study?

- A comparison between sales and assessed values in the county to ensure that market values are being used to determine assessed values.
- Determines if assessments are accurate and equitable (mass appraisal basis).
- Standards can be found in 50 IAC 21.



What is a Ratio Study?

- **Accuracy**

It is measured by the median or average level of assessment for a class of property. For any class of property in a township, it should fall between 90% and 110%.

- **Equity**

It is measured by the coefficient of dispersion (COD). The COD should be $\leq 15\%$ on improved residential property and $\leq 20\%$ on all other classes.

- **Uniformity**

Tells whether low-value properties in a class are over- or under-valued in relation to high-value properties and is measured by price-related differential (PRD).



What is a Ratio Study?

- **Accuracy of Assessments**

Accuracy refers to how close the assessments determined by local assessing officials are to market value-in-use

- **Equity of Assessments**

Equity refers to how uniform assessments are within a class of property or geographic area

Assessments are done on a “Mass Appraisal” basis.



What is a Ratio Study?

- Accuracy and equity are measured by conducting a statistical analysis using an assessment ratio.
- **Assessed Value / Sale Price = Ratio**
 - Example 1: $\$60,000 / \$60,000 = 100\%$
 - Example 2: $\$54,000 / \$60,000 = 90\%$
 - Example 3: $\$66,000 / \$60,000 = 110\%$



What is Sales Chasing, and why is it bad?

- Sales Chasing

Using the sale of a property to trigger a reappraisal of that property at or near the selling price (IAAO Standard on Ratio Studies, 2007).



What is Sales Chasing, and why is it bad?

■ Sales Chasing: Two Identical Houses

House 1



Assessment: \$100,000

House 2



Assessment: \$100,000



What is Sales Chasing, and why is it bad?

■ Sales Chasing: Two Identical Houses

House 1



Assessment: \$100,000
SOLD! For: \$130,000

House 2



Assessment: \$100,000
Did NOT Sell



What is Sales Chasing, and why is it bad?

■ Sales Chasing: Two Identical Houses

House 1



Assessment: \$100,000

SOLD! For: \$130,000

Re-assess: \$130,000

Pays more property taxes

House 2



Assessment: \$100,000

Did NOT Sell

Don't Re-assess: \$100,000

Pays same property taxes



What is Sales Chasing, and why is it bad?

■ Sales Chasing: Two Identical Houses

House 1



Re-assess: \$130,000

House 2



Don't Re-assess: \$100,000

TAX BASE IS SHORT \$30,000!



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